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TAGS: [ECON](#) [EFIN](#) [VE](#)  
SUBJECT: BUY HIGH AND SELL HIGHER: REAL ESTATE IN THE  
BOLIVARIAN REPUBLIC

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SUMMARY  
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1. (SBU) Real estate prices are skyrocketing in Venezuela as the oil boom fuels an ever-increasing number of people chasing an increasingly limited supply of properties. Sales are up 30 percent so far in 2007, after growing 80 percent in 2006 and 60 percent in 2005. Venezuela continues to suffer from its historical problem of housing shortages, which are worsening despite massive government intervention in home construction. The problems are exacerbated by machinery and materials shortages as well as disincentives to investment, including rent controls. Despite a recent up-tick in housing construction, demand for residential and commercial real estate is expected to exceed supply and prices will continue to go up, pricing many Venezuelans out of the market.

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NO ROOM AT THE INN  
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2. (SBU) According to the Real Estate Industry's Chamber of Commerce (Camara Inmobiliaria), Venezuela suffers from a housing shortage of 1.6 million homes and another 1.1 million are in disrepair. Given an average household of 4.3 individuals, this means that over 40 percent of Venezuelans do not have adequate housing. This is a long term problem in Venezuela as the population has tended to grow faster than the market and government have been able to provide homes. In the 1990s, prior to Chavez' election, Venezuela averaged 100,000 new homes annually. In the eight years since, on average, 20,000 homes have been built per year. The country needs to build 130,000 new homes annually just to keep pace with population growth, let alone dent the current deficit.

3. (SBU) Venezuela lacks large construction firms capable of meeting the demand. According to Camara Inmobiliaria, the largest Venezuelan firms can build between 2,000 and 3,000 apartments annually, little when compared to firms in Mexico that are building 50,000. The difficulty of doing business here has driven out many contractors and engineers. They have moved their businesses to Miami, Panama, and Colombia where conditions are more business friendly. These expat firms are now marketing their offshore projects in Venezuela, with Caracas' high end shopping malls filled with posters for apartments in Panama City and Miami.

14. (SBU) The BRV has thrown all sorts of ideas at the problem, from bilateral agreements to build homes with China, Uruguay, and Iran, among others, to the recent inauguration of a petrochemicals plant that will supposedly provide material to build houses completely out of plastic. Little, if any, progress has been made. One contact described to Econoff the horror of Chinese engineers who arrived to begin construction at a building site, only to find that no roads, utilities, or ground clearing had been done. They returned to China without hammering a nail.

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BRV MIS-INTERVENTION  
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15. (SBU) There are shortages of building materials in Venezuela due to price controls and government demand for public works projects, including preparations for the Copa America, for which the BRV has built two new soccer stadiums and completely renovated seven others. The President of Cemex Venezuela recently denied in an interview with El Nacional that there were concrete shortages, blaming "bottlenecks" in the distribution chain for most problems. He acknowledged that concrete consumption had grown 116 percent over the last two years and claimed that production would increase to keep pace. Shortages of skilled labor are also rampant due to poor technical schooling, high demand, and the Missions, which discourage labor force participation via handouts. The President of the Heavy Construction Chamber told Econoff that they are also suffering from shortages, with a deficit of at least 5,000 heavy machines, including earth movers, cranes, and dump trucks

16. (SBU) Rents were frozen in 2003 for buildings built before  
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1986 (and rumors are that a new law is planned to freeze rents in apartments older than 1997 (the combined total would affect between 60 and 70 percent of the market). As owners cannot raise rents, there is little incentive to improve buildings. Rentals now make up less than 10 percent of the housing market, down from 30 percent prior to 2003. In other Latin American countries rentals make up between 30 and 50 percent of the market. The lack of rentals primarily impacts poorer and younger Venezuelans as they cannot afford to buy an apartment.

17. (SBU) Post has experienced these trends first hand as the number of available properties has declined and costs have skyrocketed. Post now requires waivers for every lease in the housing pool (as they are in excess of USD 25,000/year) and the few remaining renters ask to be paid in dollars in accounts abroad. According to the Director of human resources firm Marsh Venezuela (PROTECT THROUGHOUT), competition for housing in the Valle Arriba neighborhood where the Embassy is located is complicated by its desirability for expats employed by multi-national companies, who stipulate an apartment in the neighborhood as part of their contract. These expats are understandably eager to be close to the American school and in an area deemed "safer" than other parts of Caracas.

18. (SBU) BRV actions have discouraged investment in new projects. According to the Director of Century 21 Venezuela, housing prices peaked in 1998 (before Chavez came to power) and had fallen by as much as 25 percent by 2001. The fall in prices coupled with disruptions due to the oil and general strikes in 2002-2003 essentially halted construction in the country. Prices have increased in recent years, and by the end of 2006 prices had returned to their 1998 levels (in real dollar terms).

19. (SBU) Housing starts have trended upwards in the past two years as the economy has grown and currency controls have forced individuals and firms to invest some money locally.

Century 21 estimates that there are as many as 2000 residential projects under construction and the real estate chamber expects 105,000 homes to be completed in 2007. While still below Venezuela's needs, this marks a substantial increase over recent years.

¶10. (SBU) Local politicians have attempted to exploit the housing shortage by expropriating properties to turn over to their supporters. According to the real estate chamber, while Caracas Mayor Juan Barreto threatened to expropriate up to 5,000 buildings, in the end only 200 were identified, and as of yet none have actually been taken over.

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DEMAND AND SUPPLY  
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¶11. (SBU) Given the history of inflation and devaluation, homes are a primary means of savings in Venezuela. This has also helped drive the price of real estate up as people look for "safe" investments to place their money in increasingly uncertain times. The lack of supply and almost inelastic demand has led to a surge in prices. A one-bedroom apartment in the upper-middle class neighborhood of El Rosal in Caracas now costs upwards of USD 2,500 per month, a 2/3 increase over two years ago.

¶12. (SBU) Real estate is essentially priced in dollars and brokers have admitted to Econoff that the trend has been to price in dollars at the parallel market rate (Bs. 4070/dollar as of June 27) as most sellers are looking to get their money out of the country. The increase in the parallel rate this year has contributed to increased prices, as well.

¶13. (SBU) New residential construction has not been paralleled by an increase in commercial buildings. Office projects are significantly more expensive and have longer return times (apartments can be pre-sold, whereas offices are usually leased). Bank financing is more difficult to obtain for office projects. The shortage of office space (in Caracas, the real estate chamber estimates 80 percent of new projects are residential and only 20 percent are commercial) has also led to an increase in prices. Class AAA office

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space now sells for \$3000 per square meter.

¶14. (SBU) Residential properties are often pre-sold and mortgages, while limited, are becoming more commonplace. Mortgages in Venezuela require 20-30 percent down payments with a term of 15-20 years. Mortgage rates are below the rate of inflation, but amounts are limited by family income, with most banks refusing to lend more than 20 percent of a family's annual income. Banks are required to have 10 percent of their portfolios in the housing sector, which is actually below most Latin American peers where, according to the real estate chamber, housing makes up between 30-35 percent of loan portfolios.

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COMMENT  
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¶15. (SBU) Venezuela's government has been incapable of providing adequate housing for its population for a long time and it would appear that the housing shortage has been exacerbated under Chavez. BRV policies such as freezing rents and interest rates (during times of high inflation), price controls that have led to shortages, large public works projects, impossible labor regulations, and relying on Uruguayan home builders instead of loosening the reins on private sector Venezuelan firms, have all contributed to the pitiful situation of housing in Venezuela. It is estimated that anywhere between one and two million Caraquenos alone live in barrio slums on the hillsides (most without legal rights to their property) and as that number continues to

grow, associated social problems will grow as well.

BROWNFIELD